

READERS' GUIDE

Local government, like most industry, has a vocabulary of its own. This section of the budget is designed to help the average reader use this document by explaining how the document is organized and by defining some of the more common terms used in local government finance.

FINANCIAL DOCUMENTS

The budget is the financial plan for County operations for the fiscal year beginning July 1, 2004, and ending June 30, 2005. The budget shows the source of revenue and how these sources will be spent. It also contains outcomes, goals, and objectives the County departments have set for the year. The budget and the audit are the key financial documents that the County uses to illustrate its financial plans and status. The budget looks ahead to the coming year and shows how funds plan to be spent, while the audit shows the County's year-end financial condition. The audit document is produced annually a few months after the end of each fiscal year (October or November) while the budget is produced annually at the beginning of each fiscal year (final copies are usually made available to the public in mid-July).

SUMMARY OF LEGAL BUDGET REQUIREMENTS

North Carolina counties budget and spend money under the Local Government Budget and Fiscal Control Act (LGBFCA), as adopted by the North Carolina General Assembly. The major effects of the LGBFCA on the budgetary process are as follows:

Budget Forms and Procedures

The budget officer must prescribe the forms and procedures for the departments to use in preparing their request. In the words of GS 159-10, requests "shall be made in such form and detail, with such supporting information and justifications, as the budget officer may prescribe." GS 159-10 also requires that a budget request show actual expenditures for the prior year, estimated ones in the current year, and requested ones for the coming budget year.

Departmental Requests

GS 159-10 requires that the budget request for a department include revenues or fees that it will collect in the budget year.

Budget Preparation Calendar

The LGBFCA establishes the dates by which each stage in the annual budget process is to be completed (GS 159-10 through 13). These dates are as follows:

- Departmental requests, other than the public schools, must be submitted to the budget officer before April 30th.
- School administrative units and community colleges must submit their proposed budgets and their requests for County appropriations and supplemental tax levies no later than May 15th.
- The recommended budget must be given to the Board of Commissioner no later than June 1st.
- The Commission must enact the budget ordinance by July 1st, when the budget year begins.

FISCAL YEAR 2004/05 BUDGET CALENDAR

Monday, December 8, 2003

Budget Kick-Off – 2nd Floor Meeting Room, 4:00 p.m.

December 2003 – January 2004

Budget Training – as needed

Friday, January 9, 2004

Mid-year report on outcomes due from all departments

Friday, February 6, 2004

All budgets and outcomes are due from all departments, schools, and outside agencies. All requests keyed into system, including all detail and justification sheets. Please be reminded...when requesting additional positions, job descriptions and an ADA checklist **must** be sent to the Budget Office and to Personnel.

Monday, March 22, 2004

Recommended budget sent to County Manager

Monday, March 29, 2004

First round budget hearings with County Manager

Tuesday, March 30, 2004

First round budget hearings with County Manager

Wednesday, March 31, 2004

First round budget hearings with County Manager

Monday, April 5, 2004

Second round hearings with Manager as needed

Tuesday, April 6, 2004

Second round hearings with Manager as needed

Monday, May 17, 2004

County Manager's recommended budget sent to Board of Commissioners

Tuesday, May 18, 2004

Press Conference

Monday, May 24, 2004

Board of Commissioners' hearings with departments

Tuesday, May 25, 2004

Public Hearing and Wrap-up

Monday, June 7, 2004

Budget Adoption

Recommended Budget

GS 159-11 requires that the budget officer's recommended budget be balanced unless the Board of Commissioners insists that an unbalanced budget be submitted. It is also required that the budget be submitted to the Commissioners with a budget message. GS 159-11(b) states that the message should include:

- A concise explanation of the governmental goals fixed by the budget for the budget year.
- Important features of the activities anticipated in the budget.
- The reasons for stated changes from the previous year in program goals, programs, and appropriation levels.
- Any major changes in fiscal policy.

Board Review

Once the budget is before the Board of Commissioners, several general legal provisions apply to Board review and adoption of the budget ordinance.

- At least ten days must pass between submission of the budget and adoption of the budget ordinance.
- On the same day the budget is submitted to the Board of Commissioners, the budget officer must file a copy of it in the office of the Clerk to the Board where it is available to the public and press.
- The Clerk to the Board must publish a notice that the budget has been delivered to the Board of Commissioners and is available for public inspection. This advertisement must also note the time and place of the required public hearing.
- During the interval between submission and adoption, the Board may conduct its review at both regular and special meetings. At least one of these dates must be a public hearing at which any person who wishes to comment may.
- The Open Meeting Law (GS 143-318.9 through 318.18) applied to the budget preparation and adoption process.

Adoption of the Budget Ordinance

The budget ordinance must contain the appropriations, the estimated revenues, and the property tax levy as well as rate.

BUDGET PROCESS

As required by the Local Government Budget and Fiscal Control Act (GS 159, Article 3), the governing board must adopt by July 1st an annual balanced budget ordinance for all funds except for those funds that operate under project ordinances.

Budgetary control is exercised in all funds except the agency funds. Appropriations are made at the departmental (function) level and amended as necessary. The current budget amounts represent the budget as of December 31st of the current budget year. The budget was prepared on the modified accrual basis of accounting as required by North Carolina General Statute 159-26(c). Appropriations lapse at year-end in the General and Special Revenue Funds for which annual budgets have been legally adopted, with the

exception of those departments participating in the reinventing program. The Capital Projects Funds' budgets are adopted on a project basis, spanning more than one year. Appropriations are carried over in these funds until the project is completed.

The County follows these procedures in establishing a budget:

1. The Budget and Management Office is a division of the County Manager's Office. The Budget and Management Office consists of a Budget Manager, a Budget Analyst I, and a Budget Analyst II.
2. In November, the Budget and Management Office prepares and submits the budget manual and financial information to the departments and outside agencies. The office then updates the annual fee study and aids the departments and outside agencies with the preparation of budget requests.
3. In December, beginning in Fiscal Year 2003/04, the Budget Office prepares an allotment for each department based on projected revenues and expenditures for the next fiscal year. The allotment for the six Reinvesting Departments is based on a five-year average expenditure less capital that becomes the base budget. Once the base is established for the reinventing departments, the budget office then adds to it a capital outlay allotment also based on five year history plus any cost of living adjustments insurance increases, etc. Once this is added together, the budget for the department is established which then becomes the base budget for the next fiscal year.
4. In January, the reinventing departments submit requested outcomes, and departments not in the reinventing program as well as outside agencies submit budget requests to the Budget and Management Office.
5. During February and March, the Budget and Management Office analyzes requests for the non-reinventing departments and outside agencies, negotiates outcomes with the departments, and prepared a recommended budget for the County Manager.
6. During April, the County Manager conducts a series of budget hearings with the department managers and agency directors. He then submits a recommended budget to the Board of Commissioners. The budget includes proposed expenditures and the means of financing them.
7. The Board of Commissioners conducts budget hearings with the department managers and agency directors in May.
8. A Public Hearing is conducted to obtain taxpayer comments.
9. Prior to June 30th, the budget is legally enacted through passage of an ordinance.
10. Budgets for General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The

Board of Commissioners annually adopts a budget by ordinance appropriating funds, and may during the year authorize supplemental appropriations. Supplemental appropriations are reviewed by the Director of Finance and the Budget and Management Office, submitted to the Finance and Personnel Subcommittee, and then transmitted to the Board of Commissioners for their review and approval. If approved, they are implemented by budget revision.

ACCOUNTING STRUCTURE AND SYSTEMS

As a means of tracking and accounting for money, the operations of the County are divided into Funds. The easiest way for most people to think about funds is to compare them to bank accounts. Money comes into a “fund” from a variety of sources and is then used to provide services to the public. As with a personal bank account, “funds” have to take in at least as much money as they spend, and by law, budgets for funds must be balanced. What this means is a governmental unit cannot plan to spend more than it will take in. Catawba County has forty-three (43) funds with the largest being the General Fund.

The General Fund is often referred to as the “operating fund” because almost all County services are accounted for in this fund. The General Fund is also where most of the revenues are received. Other funds are used to keep track of capital expenditures and to build reserves. For example, the Schools’ Capital Projects Fund is where new schools and improvements to existing schools are funded. The Water and Sewer Reserve Fund is where money is accumulated over several years until it is transferred to the Water and Sewer Capital Projects Fund and spent on water and sewer needs. Again, using the example of the bank account, a transfer is when money is moved from one account (fund) to another. In the case of the Reserve and Projects Funds, a transfer can be equated to taking money out of a savings account and putting it into a checking account.

Within Funds are Departments (i.e., Sheriff’s Department, Public Health Department) and within Departments are Organizations (i.e., Narcotics Organization, Nursing Organization). Each of these accounting units facilitates the tracking of costs and effectiveness of services provided to the public.

Within Organizations are accounts or line items. These are the basic units of measure in the budget and make it possible to determine, for example, how much money is spent on books in the Main Branch of the Library (books being a *line-item* in the Main Branch *Organization* of the Library *Department* in the General *Fund*).

This document does not show every line item, but groups the line items in easier-to-read, general categories. For example, all money received from the State is shown in that major category, despite the fact that there may be several different line items or types of State revenue. Expense categories shown in the budget are: Personal Services, Supplies and Operations, and Capital Outlay. *Personal Services* include salaries, benefits, and contracted services. *Supplies and Operations* include office supplies, books, travel, utilities, and other similar costs. *Capital Outlay* accounts for the purchase of equipment that costs more than \$5,000.

Another term is *function*. The budget document is divided into functions (each function has a divider page). A function is a group of departments that accomplish a similar general purpose. For example, the Public Safety Function is made up of the Sheriff's Department and the Emergency Services Department. The functions of the General Fund make up the first seven sections of this document, and all remaining funds are in the section title Other Funds. Each department has a summary sheet that shows the total funding for that department and how the dollars will be spent. The organizations within each department have pages listing the objectives/outcomes to be achieved and major categories of funding sources and expenses.

FUNDS AND FUND BALANCES

The County uses four basic fund types: General, Special Revenue, Capital, and Enterprise. Each of these fund types has its own specific legal and accounting requirements. Appropriations lapse at year-end in the General, Special Revenue, and Enterprise Funds, for which annual budgets have been legally adopted. The Capital Projects Funds budgets are adopted on a project ordinance basis, spanning more than one year. Appropriations are carried over in these funds until the project is completed.

Each fund also has its own fund balance. Fund balance represents monies that remain unspent after all budgeted expenditures have been made. These unspent monies serve as a working capital reserve to pay expenditures in the early part of the fiscal year before taxes are collected. The fund balances are also available for appropriation or may be saved for major capital expenditures.

General Fund

The General Fund is the principal fund used to account for the provisions of governmental services. This fund summarizes the financial transactions of functional services, based on departmental operations, except for those transactions that must be accounted for separately in other funds. Fund balance in the General Fund at the end of Fiscal Year 2003 was \$17,630,830 or 11.8% of the current 2003/04 General Fund budget as it stood at mid-year. The Fiscal Year 2004/05 budget applies \$2,574,606 General Fund Fund Balance. Conservative revenue and expenditure projections used in the budget are expected to create an ending fund balance on June 30, 2005, of \$19,000,000 or 12.3% of the General Fund Budget. The Local Government Commission, an office of the North Carolina State Treasurer's Office, recommends that counties the size of Catawba maintain a minimum of 8-1/2% general fund fund balance. Estimated balances as of June 30, 2004, appropriations in the 2004/05 budget, and estimated balances on June 30, 2005, are as follows:

General Fund Types	6/30/2003	Est. 06/30/04	Appropriated FY 2004/05	Est. 06/30/05
General Fund (110)	17,630,830	17,500,000	2,574,606	19,000,000
Self Insurance (115)	2,478,069	2,500,000	1,096,635	2,600,000
Register of Deeds Automation (160)	51,391	55,000	0	65,000
Total	\$20,108,899	\$20,000,000	\$3,671,241	\$21,600,000

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for special purposes. Fund balances in the special revenue funds at the end of Fiscal Year 2003 totaled \$17,748,408. Estimated balances as of June 30, 2004, appropriations in the 2004/05 budget, and estimated balances on June 30, 2005, are as follows:

Special Revenue Fund Types	6/30/2003	Est. 06/30/04	Appropriated FY 2004/05	Est. 06/30/05
Emergency Telephone (202)	2,827,550	2,700,000	0	2,600,000
Wireless E-911 Fund (203)	99,481	150,000	0	100,000
Narcotics (205)	281,345	250,000	117,053	150,000
Reappraisal (210)	66,411	75,000	73,008	50,000
General Capital Reserve (225)	223,905	600,000	59,000	750,000
Water & Sewer Reserve (230)	7,750,527	8,000,000	0	8,500,000
Hospital Capital Reserve (235)	4,981,096	4,900,000	0	4,950,000
Rescue Squads (240)	335,916	250,000	150,596	100,000
Parks Preservation (270)	330,471	290,000	31,098	275,000
Fire Districts (350-368)	851,706	750,000	214,935	550,000
Total	\$17,748,408	\$17,965,000	\$645,690	\$18,025,000

Capital Projects Funds

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The County maintains a separate Schools' Capital Projects Fund, General Capital Projects Fund, Hospital Construction and Operations Fund, Water and Sewer Construction Fund, Water and Sewer Reserve Fund, and Capital Projects Reserve Fund for accounting and budgeting purposes. Estimated balances as of June 30, 2004, appropriations in the 2004/05 budget, and estimated balances on June 30, 2005, are as follows:

Capital Projects Fund Types	6/30/2003	Est. 06/30/04	Appropriated FY 2004/05	Est. 06/30/05
General Capital Projects (410)	8,392,490	8,000,000	0	7,500,000
Water & Sewer Construction (415)	13,086,333	12,500,000	0	10,000,000
Schools Capital Projects (420)	9,342,315	8,500,000	3,495,445	7,000,000
School Construction Fund (423)	0	2,300,000	0	3,000,000
School Bond Capital - 1997 Series (427)	2,751,713	1,250,000	0	500,000
Hospital Construction (430)	14,462	15,000	0	15,500
Total	\$33,587,313	\$32,565,000	\$3,495,445	\$28,015,500

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing service to the general public on a continuing basis be financed or recovered primarily through user charges. The County has one enterprise fund, the Solid Waste Management Fund. As of June 30, 2003, the Solid Waste Management Fund had a fund equity of \$23,600,737.

REVENUES

The County's major revenues are: Property Tax, Sales Tax, and Intergovernmental Revenues (funds received from the State and Federal government). Property Tax is levied and collected by the County on all real estate and personal property (vehicles, machinery). The value of real property was set in 1990 and the 1.6% increase projected for 2004/05 is based on average increases in new construction and renovations over the last five years.

Two and a half cents of sales tax is levied by the County, collected by the State, and then returned to the County. Sales tax revenue is directly related to the growth of the economy, and the assumption in this budget is that the economy will grow at a slow rate and thus sales tax revenue will only increase by 2%.

Revenues from the State and Federal government almost always carry restrictions on how they can be used. Most of these revenues are tied to programs which the State or Federal Agency has ordered the County to implement.

Where possible, the County charges fees for services it provides and uses the revenue from these fees to offset the cost of providing the service. A good example of this is the fee charged for ambulance service. Revenues from these ambulance fees are estimated to be \$2,500,000 in Fiscal Year 2004/05. These revenues will help offset the \$5.5 million it costs to operate the Emergency Medical Service.

All revenues are shown in the Department and Cost Center where they are collected. For example, property revenue is shown in the Tax Collector's Cost Center.

EXPENSES

As mentioned, County governments are often ordered by the State to carry out certain programs. These programs are often referred to as State Mandates. When the State mandates a program, it often provides some funding for that program. Because large amounts of restricted funds are received from the State, the term "County Share" has been created to identify how much County tax revenue is spent on programs. Because of this unique relationship between the State and the County, it is often possible for a department to add personnel or a new program without significantly increasing the amount of County tax revenue needed.

Budgeted expenses in departments and cost centers may fluctuate from year to year because of capital expenditures. While most expenses are fairly stable, increasing slightly because of inflation, the purchase of capital can make the budget look especially large or small in a given year.

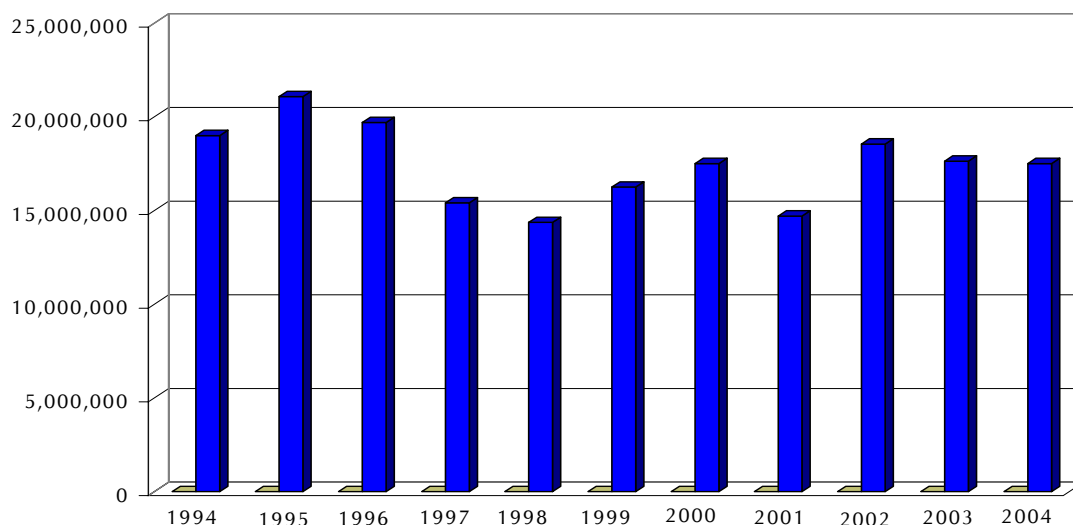
BASIS OF ACCOUNTING

Basis of Accounting refers to when revenues, expenditures, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All funds of the County are budgeted and accounted for during the year on the modified accrual basis of accounting in accordance with North Carolina General Statute 159-26(c) and generally accepted accounting principles. The governmental funds are presented in the financial statements on this same basis. Under the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Major revenues that are determined to be susceptible to accrual include intergovernmental revenues and interest. Major revenues that are determined not to be susceptible to accrual because they are either not available soon enough to pay liabilities of the current period or are not objectively measurable include ad valorem taxes, licenses, permits, and fines and forfeitures.

Expenditures are recognized in the accounting period in which a fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt which are recognized when due. Encumbrances are recognized during the year, but outstanding encumbrances at the end of the year do not constitute expenditures and are either charged to an appropriation in the following year or the contractual commitment is canceled.

General Fund - Fund Balance History



Source: Catawba County Budget 93/94, 94/95, 95/96, 96/97, 97/98, 98/99, 99/00, 00/01, 02/03, 03/04

* Fund Balances for Fiscal Year 2003/04 are estimates.